



from Renaissance Corporation Managing Director Paul Johnston

Good morning

In recent years I have talked about some of the difficulties we face in our core distribution business when vendors make decisions we have little or no control over, and these decisions have far reaching effects on our business. I have also talked about our plans to diversify the business into areas where we have greater control over our own destiny. During that time we have had some successes and some failures. I want to take a few minutes to talk about our efforts in this area.

Some three years ago we started work on two promising start-ups. One was Ttxtunes and the other Renaissance Indemnity Limited. As is the nature of start-ups, they often have quite substantial set-up costs. In our case, most of the development costs of these two businesses had been capitalised over 2007 and 2008. As market conditions worsened and with the knowledge that any possible move into profit would be delayed and losses would continue in 2009 and possibly through 2010, the Board made the difficult decision to cease all further development. When we made the decision to cease these businesses, we incurred a charge against our 2008 result of about \$2m. Quite frankly the timing of the write-downs could not have been worse. Not only did we have a deteriorating market, we were faced with decisions being taken by vendors that would further impact on the company's profitability, the very reason we had tried to develop our own intellectual property. Although we were unsuccessful with these two businesses we learned a great deal about new markets and retained some IP that we believe could still give some return in the future.

In the same time frame we spent significantly more – about \$10 million – on acquiring MagnumMac and Natcoll. Although the economic downturn has had a bad impact on MagnumMac's short-term profitability the long term outlook remains positive. Natcoll has performed very well since acquisition and we believe it will have another good year in 2009.

These efforts, coupled with the impact brought about by our vendor's actions, have had the effect of shifting the ratio of earnings within our business. As our Chairman said in his opening statement, we are in a transition.

I now want to look at the trading result for 2008 and talk about how the business is performing in 2009.

In 2008 a number of factors had an impact on our trading result, I will highlight some of them now.

The move by two large retailers to buying directly from Apple had less impact in the first half but the full effect was felt in the 2<sup>nd</sup> half. This will also show up in our 2009 first half year on year figures.

The reduction in margin in our Apple distribution business, which was phased in over the year, is another area where the impact is felt over the long term. As we have already stated, the contribution from the Apple division for 2009 will be reduced by about \$1.5 million as a result of the margin reduction.

We saw sales in the retail sector come under pressure in May 2008 and by July it was clear that this sector was struggling. Retail based IT sales will likely have a tough time this year

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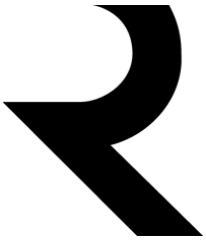
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and possibly into next year as well. However history shows that when this section of the market rebounds, it does so with a vengeance.

And the other main impact we saw in 2008 was the substantial drop in sales in Q4. This was most evident in hardware sales to education and again in retail. The scale of the drop was greater than anything we have experienced, certainly in the last 15 years.

These were the main factors that drove our trading result in 2008, and some of them will have an ongoing effect, particularly on this year's trading.

Our MagnumMac business was hit hard with the recession, but we are working to position this company as the premier Apple reseller in the country. We introduced a new point of sale system into MagnumMac, and this went live in December.

In November 2008 we opened our new store in Newmarket, Auckland. The store was designed to meet Apple's Premium Reseller specifications, and Apple helped with the design and layout of the store. Building a store like this takes a huge effort and many months of hard work. The following video gives you some idea, but we have condensed it into 2 minutes.

We also had a great opening for the store, and this is a video of the event.

So that was 2008. It was an extremely tough year, and obviously not just in our market.

2009 will also be a tough year. In preparing our internal forecasts, I believe we took a very realistic view on how business would be this year and I am now going to give you an update as to how we are trading against those forecasts. These charts cover trading up to the end of April.

Sales in our distribution business, which covers all brands, including Apple, are down year-on-year from \$47m to \$36m, about 23%. This is mostly due to the change to direct buying on the Apple products. While total sales are down in this area, it should be noted that on a "same customer" basis Apple sales actually increased by about 17% year-on-year.

Sales in our Digital services business are down from about \$8m to about \$6m. This is due to poorer market conditions.

Education sales are down from about \$23m to about \$21m, this is all due to a reduction in hardware sales in the education market.

Our retail sales, MagnumMac, are flat year on year. However same store sales are slightly down on 2008.

And our YTD operating expenses have been reduced by about \$1.5m or about 15%.

So you can see from the charts that this is shaping up to be another tough year. But it is important to know how we are tracking to our forecasts. This is not something we usually talk about publicly, but in these difficult times we believe it is appropriate.

Our YTD sales, gross margin, expenses and profit are all within 1% of forecast. So as I said, this will be another tough year but at this stage we are very close to target. Provided we continue to track on budget through the second half, we should produce a profit before tax similar to 2008 before the RIL and Ttxtunes write-downs.

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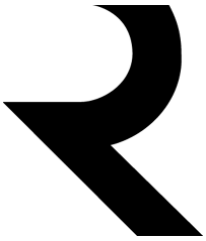
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It is important that we continue to develop the business. I now want to share with you some new things we have for 2009.

The first is the new corporate web site, which went live a couple of weeks ago. Some of you may have already seen it but for the others, here are a few images.

Next, I want to talk about a new service we launched last Friday, Learning Seat. Learning Seat is an Australian Company that is part of News Limited. They provide world-class on-line learning solutions to government departments, local councils, corporates and small to medium businesses. They also incorporate this learning system into a comprehensive induction system and link in with the clients' own intranet or web site. Learning Seat has over 200 customers and well over a quarter of a million users. Their customer base includes some of the top companies in the world and the courses have been tailored to meet New Zealand legislation and governance requirements. We are the exclusive distributor in New Zealand for Learning Seat.

Despite the difficult economic conditions, we are continuing to invest in our MagnumMac business. This is a long-term strategy and our investment allows us to build a gap between MagnumMac and the competition that will stand us in good stead when the economy picks up.

We are due to open our new MagnumMac store and head office in Christchurch in July. As the lease on our current building was due to expire, we have taken the opportunity to relocate to a higher profile site. Here are some images of the design concepts for the new store.

Once again the store meets all Apple standards and qualifies as an Apple Premium Reseller location, the highest standard available. This is the third Apple Premium Reseller location we have in the MagnumMac business.

And last but by no means least, Natcoll. We opened our new Natcoll Wellington campus last week. The new campus provides an excellent environment for our students and staff and gives us room for further expansion in the future. These are a couple of photos of the new facility.

The outlook for 2009 shows we will have a tough year and some parts of our business will find it tougher than others. We will face continuing pressures on margins, and we need to keep building our business while keeping costs down.

In summary, 2008 was difficult to say the least and 2009 will be another tough year. We have set what we believe are realistic goals, and after the first 4 months we are tracking very close to plan. And having a more diverse company gives us a better balance.

We will continue to invest in areas of the business where we will see long-term growth.

And finally, we have an incredible team of people with the Renaissance Group. I know how hard they are all working for our company and I would like to take this opportunity to thank them all for their efforts.

**Paul Johnston**  
**Managing Director**  
**22 May 2009**

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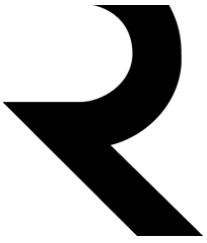
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